

October 24, 1986

**BULLETIN NO. 87-2**

**TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS**

**SUBJECT: Agency Contributions for Employee Retirement under the Federal Employee Retirement System.**

**1. Purpose.** This Bulletin provides policies and procedures for:

- reflecting increases in the employer share of retirement costs due to enactment of the new Federal Employees' Retirement System (FERS) in agency budget estimates; and
- requesting supplementals for these increases in fiscal year (FY) 1987.

**2. Authority.** The Federal Employees' Retirement System Act of 1986, P.L. 99-335, establishes a retirement program for Federal civilian employees and postal workers hired after December 31, 1983 who are covered by social security, and for employees under the Civil Service Retirement System (CSRS) who choose to transfer into the new system. This act sets an effective date of January 1, 1987 to begin coverage of post-1983 hires under FERS.

The Omnibus Budget Reconciliation Act of 1986 revises the effective date for participation of post-1983 hires in the thrift plan from January 1, 1987 to the first pay period in April. The effective date for this group for the basic annuity and social security components of FERS was not changed by this law. FERS provisions related to employees transferring from CSRS also were not changed by this law.

**3. Background.** Prior to enactment of P.L. 99-335, employing agencies made payments matching employees' retirement contributions (7 percent of the basic pay for employees, and 7.5 percent for Congressional employees, law enforcement officers, and firefighters) to the civil service retirement and disability fund. Since these employee and agency contributions fall far short of financing accruing costs of CSRS benefits, an annual payment is made to the fund by the Treasury (\$16.3 billion in FY 1986) to finance a part of the unfunded liability.

Unlike CSRS, the new FERS will be fully financed by agency and employee contributions beginning January 1, 1987.

The information submitted pursuant to this Bulletin will provide the basis both for revising agency budget estimates and for requesting any FY 1987 retirement supplementals that may be included in the President's FY 1988 Budget.

4. Coverage. These instructions apply to all Executive Branch agencies, including the U.S. Postal Service. The District of Columbia is not covered by these requirements.

5. Due Dates. Agencies will calculate the increased retirement costs related to FERS, revise agency budget requests accordingly, and submit the required materials as described in section 9 by Friday, November 7, 1986, to the OMB representative responsible for reviewing the agency's budget estimates. The assumptions to be used in the calculations are provided in section 6 and Attachment A; an illustration of the way the increased costs should be calculated is found at Attachment B. Attachment C provides instructions on preparing the required submissions to OMB.

6. Policies.

a) Agencies will revise their FY 1988 budget submissions to incorporate estimates of increased retirement costs. Revisions should be made to materials included in the initial budget submission pertaining to various funding options, as well as to the agency request.

b) Because agency costs will vary depending on the extent of participation in FERS and in the thrift plan by various types of employees, agencies will be required to estimate retirement costs for several segments of the workforce separately. For estimating purposes, agencies will determine the aggregate payroll attributable to 3 populations: post-1983 hires (employees hired after December 31, 1983), "switchers" (CSRS enrollees switching into FERS), and "CSRS enrollees" (employees opting to stay in the current CSRS plan). (Agencies with law enforcement or other special category personnel will also need to calculate the increased costs separately for each category).

c) All agencies will utilize the same assumptions with respect to participation in FERS, thrift plan utilization, timing of enrollment, growth of FERS (as a proportion of total payroll), and contribution rates. (The assumptions are provided in Attachment A.) An agency may use alternative assumptions for proportions of payroll attributable to FERS (see table 1 of Attachment A) only if it can provide convincing justification for doing so.

7. FY 1987 Supplementals. Each agency will include in its budget submission an estimate, based on the partial implementation of FERS in FY 1987, of the supplemental likely to be requested to finance FY 1987 retirement increases. Estimates of

FY 1987 supplemental requests for retirement will not include the effects of increased costs due to a FY 1987 pay raise. Separate instructions on pay raise costs will be issued later and will provide guidance on calculating the effect of the pay raise on agency retirement contributions.

**8. Absorption of Increased Retirement Costs.**

a) Generally, agencies are expected to absorb the maximum amount possible of the increased retirement costs in FY 1987 and beyond. Agencies will be required to submit specific justification for any amount of retirement costs that cannot be absorbed.

**9. Action Requirements.**

a) Each agency should make sure that the new retirement rates are reflected in their budget estimates for FY 1987, FY 1988 and for FY 1989-1992.

b) Each agency will submit to OMB the following materials for the purpose of determining the need for FY 1987 supplementals and higher budget requests for FY 1988:

- 1) Summary of Revised Budget Submission and Supporting Detail. The summary will be prepared in accordance with the instructions in Attachment C and in the format of the exhibit. The summary will include information both on the initial budget submission and the FY 1987 and FY 1988 request revised to reflect the effect of increased retirement costs. Supporting information will include account level detail supporting the summary and any other materials submitted with the initial agency request.
- 2) Information Sheets. Information sheets showing the methods and numbers used to make the calculations that determine the increased retirement costs will accompany the summary discussed above and must be prepared in accordance with section 6 of this Bulletin and Attachments A and B.
- 3) Narrative Explanation. Increases in retirement costs that are disproportionately high in relation to the base for any account (e.g., due to large numbers of special class employees) or the use of proportions exceeding those specified in table 1 of Attachment A must be fully justified in a narrative explanation accompanying the summary.

10. OMB Responsibilities. The Office of Management and Budget will review the information submitted as part of the FY 1988 budget process.

11. Information Contact. For further information, contact the OMB representative responsible for reviewing the agency's budget estimates.

12. Sunset Date. This Bulletin will expire as soon as action is completed.

/s/

James C. Miller III  
Director

Attachments

Attachment A  
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Assumptions for Calculation of  
Increased Retirement Costs

A. General assumptions.

(1) Participation - It is assumed that 40 percent of CSRS enrollees will switch into the new FERS between July 1, 1987 and January 1, 1988. (This assumption is incorporated in the percentages shown in table 1 of this Attachment.)

(2) Thrift plan utilization - Under the plan, agencies will contribute 1 percent of payroll for every FERS enrollee even if the employee contributes nothing. In addition, agencies must match 100 percent of employee's first 3 percent of pay contributed to the plan and 50 percent of the next 2 percent. Agency contributions to the Federal Retirement Thrift Investment Board for the thrift plan will be assumed to be static, in percentage terms, over the 5-year estimating period.

Agencies are to use the following actuarial projections regarding employee contributions to the thrift plan for FY 1987-1992. Specifically, they are to utilize a 3 percent total contribution on behalf of post-1983 hires, and a 4 percent total contribution on behalf of the population switching into FERS. (These rates include the 1 percent contribution required for every FERS enrollee and incorporate the impact on post-1983 hires' contributions of changes in employer matching contributions, maximum contributions, and effective dates included in the Omnibus Budget Reconciliation Act of 1986.)

(3) Timing of enrollment - Under FERS, agency contributions to social security (i.e., to the Federal old-age and survivors and disability insurance trust funds, known as OASDI), and the civil service retirement fund will begin January 1, 1987 for post-1983 hires. Contributions to the Thrift Investment Board for the thrift plan will begin the first pay period in April, 1987 for these employees. For estimating purposes, it is assumed that half of the current CSRS enrollees who will switch will do so July 1, 1987. The remaining half will do so December 31, 1987.

(4) FERS-covered population - The amount of agency contributions will be determined by applying the percentages spelled out in sections C through H of this attachment to the payroll attributable to the 3 populations identified as post-1983 hires, switchers, and CSRS enrollees. These populations may vary by agency but should not be substantially different from the following Government-wide averages.

Table 1. Government-wide Participation in FERS/CSRS  
(Percentage Of Total Payroll)

	Fiscal Year					
	1987*	1988*	1989	1990	1991	1992
Post-1983 hires.....	12	20	23	26	29	32
Switchers.....	4	28	31	30	28	26
Total FERS Population.....	16	48	54	56	57	58
CSRS Enrollees.....	84	52	46	44	43	42
Total Retirement.....	100	100	100	100	100	100

\* Adjusted to reflect timing of enrollment, as discussed above.

Agencies should use the above proportions of total payroll for purposes of cost estimates unless they can demonstrate convincingly to their OMB representative that other proportions are more appropriate.

Under FERS, agency contributions will be made to the civil service retirement and disability fund for the basic annuity, to the OASDI for social security, and to the Thrift Investment Board for the optional thrift plan.

#### B. FICA wage base.

The wage base on which agencies are to compute OASDI (FICA) costs is expected to increase from \$42,000 in calendar year 1986, as indicated in Table 2. The wage base is adjusted, for purposes of budget estimates, to a fiscal year basis in the following table.

Table 2. FICA Wage Base  
(Amounts in dollars)

	1987	1988	1989	1990	1991	1992
Calendar year.....	43,800	45,600	48,600	51,300	54,300	57,000
Fiscal year.....	43,350	45,150	47,850	50,630	53,550	56,330

#### C. OASDI tax.

The OASDI tax rate applied against covered payroll (total payroll up to the FICA wage base) will increase from the 5.7 percent rate in 1986 according to the schedule shown in Table 3. In row 2, the tax rate is adjusted to a fiscal year basis for the purpose of budget estimates.

**Table 3. OASDI Tax Rate  
(Percentage of Covered Payroll)**

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Calendar year.....	5.7	6.06	6.06	6.2	6.2	6.2
Fiscal year.....	5.7	5.97	6.06	6.17	6.2	6.2

**D. Calculation of retirement costs for post-1983 hires enrolled under FERS as of January 1, 1987.**

All agency estimates submitted to OMB for the FY 1988 Budget will be revised to reflect the following agency contributions to OASDI, the civil service retirement and disability fund, and the Thrift Investment Board for the thrift plan. (Employee contributions are also listed for informational purposes and to provide total FERS cost figures).

**Table 4. Post-1983 Hires Population  
(Percentage of Payroll)**

	<u>Fiscal Year</u>					
	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
<b><u>Employer</u></b>						
<b><u>Contribution to:</u></b>						
OASDI.....	5.70	5.97	6.06	6.17	6.20	6.20
CSRS/FERS.....	14.70	14.97	15.06	15.17	15.20	15.20
Thrift plan.....	3.00	3.00	3.00	3.00	3.00	3.00
Total.....	23.40	23.94	24.12	24.34	24.40	24.40
<b><u>Employee</u></b>						
<b><u>Contribution to:</u></b>						
OASDI.....	5.70	5.97	6.06	6.17	6.20	6.20
CSRS/FERS.....	1.30	1.03	.94	.83	.80	.80
Thrift plan.....	2.00	2.00	2.00	2.00	2.00	2.00
Total.....	9.00	9.00	9.00	9.00	9.00	9.00
Total Retirement*..	32.40	32.94	33.12	33.34	33.40	33.40

\* These factors do not include the Health Insurance (HI) tax already in effect which costs agencies and employees an additional 1.45 percent of pay subject to FICA each year.

**E. Calculation of retirement costs for current CSRS enrollees switching into FERS July 1-December 31, 1987.**

For "switchers," agency estimates submitted to OMB will apply the same percentages shown above to the FERS aggregate payroll estimate, except with respect to the thrift plan payment. Instead of a 3 percent contribution, agencies will assume a 4 percent contribution. In general, these employees are paid more

than post-1983 hires and will probably elect to defer an estimated 3 percent of their salaries to the FERS thrift plan instead of 2 percent. Total agency and employee payments will thus be as follows:

Table 5. Population Switching from CSRS to FERS  
(Percentage of Payroll)

	Fiscal Year					
	1987	1988	1989	1990	1991	1992
Total Employer Contribution...	24.40	24.94	25.12	25.34	25.40	25.40
Total Employee Contribution...	10.00	10.00	10.00	10.00	10.00	10.00
Total Retirement*.....	34.40	34.94	35.12	35.34	35.40	35.40

\* No HI tax included.

F. Calculation of retirement costs for employees who remain under CSRS.

Agency and employee contributions to pay for CSRS coverage have not been changed by either the new FERS law or the Reconciliation Act of 1986 and should be budgeted for as in the past, per paragraph 3 of the bulletin.

G. Calculation of retirement costs for special class employees -- law enforcement, air traffic controllers, foreign service, etc., with post-1983 status beginning January 1, 1987.

Because special class benefits under FERS must also be fully financed by agency and employee, and because these benefits are considerably more expensive than normal retirement benefits, agencies must separate these categories of employees and separately budget for these additional costs utilizing the following factors:

Table 6. Post-1983 Hires-Special Class Population  
(Percentage of Payroll)

	Fiscal Year					
	1987	1988	1989	1990	1991	1992
Employer Contribution to:						
OASDI.....	5.70	5.97	6.06	6.17	6.20	6.20
CSRS/FERS*.....	30.00	30.27	30.36	30.47	30.50	30.50
Thrift plan.....	3.00	3.00	3.00	3.00	3.00	3.00
Total.....	38.70	39.24	39.42	39.64	39.70	39.70

**Employee  
Contribution to:**

OASDI.....	5.70	5.97	6.06	6.17	6.20	6.20
CSRS/FERS*	1.80	1.53	1.44	1.33	1.30	1.30
Thrift plan.....	2.00	2.00	2.00	2.00	2.00	2.00
Total.....	9.50	9.50	9.50	9.50	9.50	9.50
Total Retirement**..	48.20	48.74	48.92	49.14	49.20	49.20

\* Applies also to payments made to the Foreign Service retirement and disability fund for foreign service officers and employees.

\*\* Does not include HI tax.

**H. Calculation of retirement costs for special class employees who switch into FERS July 1-December 31, 1987.**

As was the case for those employees switching into FERS (discussed in section E of this attachment), special class employees who switch will have worked longer, are likely to be higher paid, and thus will defer more of their salaries into the FERS thrift plan. Agency contributions for these employees are the same as those listed above except with respect to the thrift plan contribution which will be 4 percent (instead of 3 percent) to match an employee payment of 3 percent (instead of 2 percent) each year. Totals are as follows:

**Table 7. Special Class Population Switching Into FERS  
(Percentage of Payroll)**

	Fiscal Year					
	1987	1988	1989	1990	1991	1992
Total employer contribution.....	39.70	40.24	40.42	40.64	40.70	40.70
Total employee contribution.....	10.50	10.50	10.50	10.50	10.50	10.50
Total Retirement*.....	50.20	50.74	50.92	51.14	51.20	51.20

\* Does not include HI tax.

Attachment B  
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**Illustration of Steps Necessary to  
Calculate Increased Retirement Costs**

In this example, the agency has a staff of 18: eight GS-9, eight GS-13, and two SES FTEs. The calculations are shown for 1987 only. Agencies will, however, be required to make similar calculations for fiscal years 1987-1992.

**Step 1 - Calculate the aggregate payroll.** Multiply the estimated payroll for each group of FTEs by the number of FTEs at each grade level.

**Example:**

8 GS-9	= 21,804 x 8	= 174,432
8 GS-13	= 37,599 x 8	= 300,792
2 SES	= 69,468 x 2	= <u>138,936</u>

Aggregate payroll = 614,160

**Step 2 - Calculate the retirement populations for the 3 categories of employees (post-1983 hires, switchers and CSRS enrollees) separately.** To determine the population for each category, multiply the aggregate payroll by the percentages shown in table 1 of Attachment A for each fiscal year. Calculate the total FERS payroll (the sum of post-1983 hires and switchers) for use in step 3.

**Example:**

Post-1983 hires	.12 x 614,160 =	73,699.20
Switchers	.04 x 614,160 =	<u>24,566.40</u>
Total FERS		98,265.60

CSRS enrollees	.84 x 614,160 =	<u>515,894.40</u>
		614,160.00

**Step 3 - Calculate payroll subject to OASDI Tax**

First, calculate the total amount of payroll not subject to OASDI tax. Specifically, determine the amount of payroll in excess of the FICA wage base (shown in Table 2 of Attachment A) for each FTE, multiply that amount by the number of FTEs at that salary level and add the amounts for each salary level.

For this calculation, the proportion of FERS payroll not subject to OASDI tax will be assumed to be the same as the proportion of total payroll not subject to the OASDI tax.

Multiply the FERS payroll by this amount and subtract the result from the amount of FERS payroll. The resulting amount is the payroll subject to OASDI tax.

**Example:**

Amount not subject to OASDI tax	=	(69,468 - 43,350) x 2	=	52,236
Proportion attribut- able to FERS payroll	=			$\frac{52,236}{614,160} = .09$
FERS payroll x .09	=	98,265.60 x .09	=	8,843.90
FERS payroll subject to OASDI tax	=	98,265.60 -		8,843.90
			=	89,421.70

**Step 4 - Calculate agency contributions**

To determine agency contributions, multiply the payroll attributable to each population by the applicable percentages for each year. (See Attachment A, sections C through F and tables 3 through 5.) Note that for FERS enrollees, the percentage of payroll for agency contributions for OASDI and CSRS/FERS is the same for post-1983 hires and switchers; contributions for the thrift plan, however, are different. Agency contributions for CSRS enrollees have not been changed by law. Add the sum of each type of agency contribution to determine the total retirement contribution for the agency.

**Example:**

Agency 1987 contributions:

To: OASDI			
For FERS enrollees.....	89,421.70 x .057	=	5,097.04
To: CSRS/FERS			
For FERS enrollees.....	98,265.60 x .147	=	14,445.04
For CSRS enrollees.....	515,894.40 x .07	=	36,112.61
Subtotal, CSRS/FERS.....			<u>50,557.65</u>

**To: Thrift plan for FERS enrollees**

For Post-1983.....	73,699.20 x	.03 =	2,210.98
For Switchers.....	24,566.40 x	.04 =	982.66
Subtotal, thrift plan...			<u>3,193.64</u>

Total agency con- tributions.....			<u>58,848.33</u>
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**Step 5 - Calculate agency contributions for special class employees**

Follow step 4 calculations, using the percentages that are shown in sections G and H and tables 6 and 7 of Attachment A.

**Step 6 - Calculate the total increase in agency contributions**

Subtract the total agency contributions budgeted for the fiscal year from the total agency contributions calculated using the assumptions in the bulletin (i.e., with some employees covered by FERS and others by CSRS). The remainder will be the increased costs due to the new retirement system.

**Example:****Agency contributions budgeted for 1987:**

Post-1983 hires	73,699.20 x	.127*	=	9,359.80
All others	540,460.80 x	.07	=	37,832.26
Total				<u>47,192.06</u>

Increase in agency contributions due to new retirement system =	58,848.33	-	47,192.06	
				= 11,656.27

\* Under interim coverage in place before new law was enacted, agency contributions for post-1983 hires consisted of payments to OASDI (5.7 percent) and to CSRS (7 percent).

Attachment C  
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**Instructions for Preparing the  
Summary of Revised Budget Submissions**

Each agency will submit an original and one copy of the required report in the format of the exhibit. Related materials supporting this summary are also required, as described below. Agencies are required to provide summary information on both the initial budget requests and the revised FY 1987 and FY 1988 requests that reflect the effect of increased retirement costs due to changes in agency contributions under the new Federal Employees' Retirement System. The reports are due no later than November 7, 1986.

Columns 1, 2 and 6. Report total budget authority and outlays for the agency for FY 1986, 1987 and 1988, respectively, as included in the initial budget submission due September 1, 1986.

Column 3. Report the revised estimate of total budget authority and outlays for the agency for FY 1987 that reflects increased agency contributions for retirement.

Column 4. Include the amount of absorption of FY 1987 increased retirement costs that is reflected in revised request for that year reported in column 3. Also, provide specific justification for any amount of increased retirement costs for FY 1987 that cannot be absorbed.

Column 5. Report the amount of the additional appropriation required as a result of increased retirement costs. This amount should not represent the total increased costs due to the new retirement system, unless no absorption is possible. This amount should not include the effects of increased costs due to a FY 1987 pay raise.

Column 7. Report the total budget authority and outlays for FY 1988 that reflects increased agency contributions for retirement. Indicate in a footnote the amount of any FY 1988 increased retirement costs that were absorbed.

Related materials. The required summary report is intended to provide a quick overview of the revised budget submissions. Supporting information accompanying the summary should include: (a) revised totals reflecting retirement increases for the outyears (1989-1992); (b) account level detail supporting the revised agency totals reported in the summary; and (c) other

materials included in the initial submission (e.g., materials pertaining to various funding/FTE options, as well as to the agency request) revised to reflect the increased retirement costs. In addition, agencies will provide information sheets showing the calculations used to determine the increased retirement costs and a narrative explanation for increases that are disproportionately high in relation to the base for any account. (See section 9 of the Bulletin.)

Summary of Revised Budget Submission  
Department of Government  
(in thousands of dollars)

FY 1986 (1)	Initial Request (2)	FY 1987			Initial Request (6)	FY 1988 Revised Request 1/ (7)
		Revised Request (3)	Amount of Absorption (4)	Supplemental for retirement 1/ (5)		

Budget authority....

Outlays.....

1/ Provide specific justification for any amount of increased retirement costs that cannot be absorbed.

/See Attachment C for a list of required materials to be submitted with this summary./